

MICHIGAN DEPARTMENT OF COMMUNITY  
HEALTH

MEDICAID SCHOOL BASED SERVICES PROGRAM

FEE FOR SERVICE REIMBURSEMENT  
METHODOLOGY

Work Paper  
April, 2006

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# Michigan Department of Community Health

## April 2006

### I. OVERVIEW:

The Centers for Medicare and Medicaid (CMS) has requested that the Michigan Department of Community Health (MDCH) submit a document for further clarification of the school based services reimbursement methodology and cost reporting. This methodology has been developed through the intense efforts of a collaborative workgroup made up of representatives from the Departments of Education and Community Health, Intermediate School District (ISD) staff, Superintendents, Public Consulting Group and representatives from the Centers for Medicare and Medicaid (CMS) Local Office.

### REIMBURSEMENT – SERVICES

Reimbursement for Medicaid covered services will be calculated utilizing the following steps:

- |                                                     |                                                                                                                                                     |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1:</b> <u>Form 4096</u>                     | Capture Medicaid-allowable direct care costs for school based services                                                                              |
| <b>Step 2:</b> <u>MDE ICR</u>                       | Apply MDE Indirect Cost Rate                                                                                                                        |
| <b>Step 3:</b> <u>AOP RMTS</u>                      | Apply general administration %                                                                                                                      |
| <b>Step 4:</b> <u>AOP RMTS</u>                      | Apply direct service %                                                                                                                              |
| <b>Step 5:</b> <u>FID report</u>                    | Add allowable Special Education % of direct administrative costs                                                                                    |
| <b>Step 6:</b> <u>LEA/ISD Fixed Asset Reporting</u> | Add allowable Special Education % of building and fixtures depreciation                                                                             |
| <b>Step 7:</b> <u>LEA/ISD Fixed Asset Reporting</u> | Add allowable Special Education % of major moveable equipment depreciation                                                                          |
| <b>Step 8:</b> <u>FID report</u>                    | Add allowable Special Education % of interest on long term debt                                                                                     |
| <b>Step 9:</b> <u>MDCH</u>                          | <b><u>Equals the total allowable costs</u></b><br>Apply the Medicaid Eligibility Rate<br><b><u>EQUALS THE TOTAL MEDICAID REIMBURSABLE COSTS</u></b> |

### REIMBURSEMENT – TRANSPORTATION

Reimbursement for Medicaid covered Specialized Transportation will be calculated utilizing the following steps:

- |                                                           |                                                                                                 |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Step 1:</b> <u>SE – 4094</u>                           | Capture the Special Education Medicaid-allowable costs for the specialized transportation costs |
| <b>Step 2:</b> <u>(MDE) ICR</u>                           | Apply MDE Indirect Cost Rate                                                                    |
| <b>Step 3:</b> <u>MDCH</u>                                | Apply the Medicaid Eligibility Rate                                                             |
| <b>Step 4:</b> <u>Informal Survey or Paid Claims Data</u> | Apply ridership discount                                                                        |
| <b>Step 5:</b> <u>Utilization Factor</u>                  | Apply the average % trips per week with an associated health service received on the same date  |
|                                                           | <b><u>EQUALS THE TOTAL MEDICAID REIMBURSABLE TRANSPORTATION COSTS</u></b>                       |

## **COST REPORTING – DATA SOURCES**

The cost reporting will be accomplished utilizing the following data sources:

- SE-4096 – for capturing direct care costs
- SE-4094 – for capturing specialized transportation costs
- Financial Information Database – for capturing OMB A-87 allowable indirect costs not included in the MDE Indirect Cost Rate
- Local Educational Agency (LEA) fixed asset reporting – for capturing OMB A-87 building and fixtures and major moveable equipment depreciation costs.
- Michigan Department of Education Indirect Cost Rate

## **COST CERTIFICATION (form attached)**

Annual cost certification will be accomplished via the Michigan Department of Community Health Certification of State Expenditures form. Once the cost reports are received from the ISDs, MDCH will calculate the reimbursement amount by provider and insert this figure into the cost certification form. The forms will then be sent to the ISD for verification and signature.

## **COST RECONCILIATION**

### Medical Services:

MDCH will perform annual cost reconciliation based on the Medicaid allowable costs from the FID and SE-4096 cost formula detailed in the SE-4096 Cost Report Instructions Section of this document. Once the cost reconciliation is completed MDCH will process any over/under payments based on the findings.

### Transportation Services:

MDCH will perform annual cost reconciliation based on the Medicaid allowable costs from the SE-4094 Special Education Specialized Transportation Cost Report line 28. The total SE-4094 expenditures plus the MDE ICR will be multiplied by the Special Transportation IEP Medicaid Eligibility rate. This amount will then be multiplied by an appropriate discount to reflect ridership. This survey will be based on either informal surveys or on past paid claims history. A utilization discount will then be applied to account for only the transportation that was provided on the same date of service as another Medicaid covered service. Trip logs will continue to be maintained as required to document transportation services provided.

## **II. SUPPORT NARRATIVE FOR COST REPORTS SELECTED**

The Michigan Department of Community Health has determined that the most accurate, credible and minimally intrusive process to collect the costs data for the school based services is to utilize a modified version of the existing MDE cost reports.

### **SE-4096 – SERVICES COST REPORT (form attached with instruction document crosswalk)**

MDCH will utilize a modified version of the Michigan Department of Education cost report, SE-4096, page 3, (modified SE-4096 attached). As a first step we will use only the costs from the highlighted lines on the SE-4096 to calculate the Medicaid-allowable cost base. The base clinician costs will be gleaned from the SE-4096 along with indirect costs. In the second step, the base costs will be discounted by the percent of direct care time spent by clinicians (from the Administrative Outreach time study data) and discounted again by the Medicaid eligibility ratio.

The SE-4096 was chosen as the collection tool for the school based services expenditures for the following reasons:

- The report is mandatory, annual, statewide and is completed by all (approximately 800) districts in the state as a requirement to receive State Aid funding.
- The report captures only state and local expenditure data, which avoids the possibility of claiming federally funded costs.
- The report is reviewed and checked for reasonableness; the financial data that is contained in the report, per the Michigan State School Aid Act of 1979 (section 388.1618), is subject to audit.
- Use of this form avoids duplication of effort by the school districts in completing the same report twice. The decision to amend this form resulted from close collaboration with the Medicaid agency, Local CMS representatives, the Department of Education, Intermediate School District (ISD) representatives and is supported by the Superintendents statewide.
- With minor revisions to the old form, the more detailed data required by CMS has been isolated. In other words, only the clinician costs related to performing Medicaid-allowable direct care services are captured in the clinician lines, and all other costs for items such as secretarial, aides, supplies, etc., are reported separately on the “support” line and not included in the cost captured for reimbursement.

#### **SE-4094 – SPECIALIZED TRANSPORTATION COST REPORT (form attached)**

The SE-4094 was selected as our data source for the costs associated with providing specialized transportation services. Only cost data from column (4) of the SE-4094 (SE-4094 attached) is picked up for the first step in our reimbursement methodology. Column (4) represents Special Education Section 52 costs only. These costs reflect the costs of providing specialized transportation services as required by the child’s individualized educational program (IEP) and do not include costs for Section 53a pupils. The base costs will be gleaned from the SE-4094; this amount will then be discounted by the Medicaid eligibility ratio.

#### **FINANCIAL INFORMATION DATABASE (FID) – DIRECT ADMINISTRATIVE COSTS**

The FID is one of the Center for Educational Performance and Information’s (CEPI) warehouse data sets. It is used by the school districts to submit Balance Sheet, Revenue and Expenditure financial data to the State of Michigan. The FID report will be used to gather information for the calculation of the OMB A-87 allowable administrative costs that are not included in the MDE Indirect Cost Rate. In order to prevent the inclusion of federal dollars MDCH will be including for our calculations only FID account codes 11 (fund type – general fund) and account code 22 (fund type – special education).

#### **ISD/LEA FIXED ASSET REPORTING**

Michigan school districts maintain fixed asset schedules according to the Association of School Business International Accounting, Auditing, and Budgeting Committee, Subcommittee on GASB No. 34 Implementation. Michigan school districts follow the rules established in Chapter 4 “Capital Assets and Depreciation” when developing fixed asset reports. The fixed asset reporting will be utilized to gather depreciation costs for Buildings, Fixtures and Major Moveable Equipment related to the overall provision of support services to students in the school setting. We are further allocating this cost down to the Medicaid health services by applying the Special Education to General Education ratio and the Medicaid Health-Related IEP rate.

**Michigan Department of Community Health  
School Based Health Services Cost Calculation Instructions  
April 2006**

The School Based Direct Service Cost Calculation is made up of the following steps:

- Step 1** - Capture Medicaid allowable direct care costs for school based services
- Step 2** – Apply MDE Indirect Cost Rate
- Step 3** - Apply general administration %
- Step 4** – Apply direct service %
- Step 5** - Add allowable Special Education % of direct administrative costs
- Step 6** - Add allowable Special Education % of building and fixtures depreciation
- Step 7** - Add allowable Special Education % major moveable equipment depreciation
- Step 8** - Add allowable Special Education % of interest on long term debt
- Equals the total allowable costs**
- Step 9** – Times the Medicaid Eligibility Rate
- EQUALS THE TOTAL MEDICAID REIMBURSABLE COSTS**

*General Notes: A Cost Report will be completed for each LEA and ISD*

**I. STEP 1 – MEDICAID ALLOWABLE COSTS**

The SE-4096 column 9 “Total” expenditures are captured from only the lines and function/object codes listed below:

<b>4096 Line #</b>	<b>Professional</b>	<b>Function Code</b>	<b>Object Code</b>
15b	Aides	122	1630
17a	Physician	213	1410 & 1630
17b	RN & LPN	213	1450
17c	PT & PTA	213	1470
17d	OT & COTA	213	1480
18a	Psychologist & Psychiatrist	214	1430 & 1630
19a	Speech Therapist	215	1280 & 1630
19b	Audiologist	215	1490
20a	Social Worker	216	1440 & 1630
21a	Visual Media Spec.	217	1270 & 1630
21b	Orientation & Mobility Spec.	217	1290
29b	Teacher Consultant	218	1250

The SE-4096 Column 9 “Total” expenditures include costs from the following columns and object codes described below. Column 7 “Capital Outlay” is not picked up:

<b>Column 4 Benefits 2000</b>	<b>Column 5 Purchased Services 3000-4000</b>	<b>Column 6 Supplies 5000</b>	<b>Column 8 Other Expenditures 7000</b>
Object Code <b>2100</b> (Insurances – i.e., Life, Disability, Health, Dental and Vision)	Object Code <b>3130</b> (Prof. & Tech. Services – contracted audiological, medical service, psychologist or other student services)	Object Code <b>5110</b> (Teaching/Testing Supplies – items used for pupil evaluation and instruction. Does not include items available for regular education pupils)	Object Code <b>7410</b> (Dues and Fees)
Object Code <b>2400</b> (Professional Services – i.e. employee physicals, Hepatitis B shots)	Object Code <b>3190</b> (Other Prof. & Tech. Services – such as medical consultation not provided under employee benefits)	Object Code <b>5410</b> (Periodicals – for special education pupil use only)	Object Code <b>7910</b> (Misc. Expenditures )
Object Code <b>2920</b> (Other Benefits – Cash in lieu of benefits)	Object Code <b>3210</b> (Local Travel – for staff traveling between buildings)		
	Object Code <b>3610</b> (Printing – for instructional materials on a contracted basis)		
	Object Code <b>4120</b> (Equipment – instructional equipment repair and maintenance, i.e. hearing aids)		
	Object Code <b>4220</b> (Equipment – rental of special education instructional equipment i.e. wheelchairs)		

## **II. STEP 2 – MDE INDIRECT COST RATE**

This is the unrestricted indirect cost rate calculated and approved by the Michigan Department of Education acting as the cognizant agency for the United States Department of Education.

## **III. STEP 3 – GENERAL ADMINISTRATION PERCENTAGE**

This is the general administration percentage, identified as Code 16, from the Administrative Outreach Program Random Moment Time Study results.

## **IV. STEP 4 – DIRECT SERVICE PERCENTAGE**

This is the direct service percentage, identified as Code 13, from the Administrative Outreach Program Random Moment Time Study results

## **V. STEP 5 – ALLOWABLE DIRECT ADMINISTRATIVE COSTS**

Direct administrative cost is an allowable Medicaid expense per OMB A-87 regulations. The State of Michigan Financial Information Database (FID) for School Districts will serve as the source data for the accumulation of these expenses. Individual Local Education Authorities (LEAs) and Intermediate School Districts (ISDs) prepare the FID annually. The FID expenditure data is based on a July to June fiscal year basis and is due by November 15<sup>th</sup> of each year. MDE reviews FID data annually and CEPI releases FID data the following March/April. The FID data becomes available shortly before the SE-4096 data is available.

### **Step 1: Develop Total Direct Administrative Expense Cost Pool**

The FID Chart of Accounts includes fund codes and object codes for Function Code 241 (Office of the Principal). Office of the Principal includes expenses for activities performed by the principal, assistant principal and other assistants in the general supervision of all operations of the school building; evaluation of staff members of the school; supervision and maintenance of the school records are included under this function, along with clerical staff for these activities. These expenditures are not included in the MDE unrestricted indirect cost rate formula. The following fund codes and function codes will be used to develop the cost pool:

- The direct administrative expense cost pool will include the allowable fund codes 11 (General Fund) and 22 (Special Education Fund).
- Function codes 241 (Office of the Principal) is the only allowable direct administrative expense code.

A copy of the supporting FID data will be submitted along with the SE-4096 cost reports as part of the settlement and reconciliation process.

### **Step 2: Calculate Medicaid Allowable Direct Administrative Expense for Cost Settlement/Reconciliation**

Once the total direct administrative expense cost pool is developed (Step 1), ISDs will use a worksheet to calculate Medicaid allowable direct administrative expense. The expense will be adjusted for any Function Code 241 expense which was claimed through the Medicaid Administrative Outreach Program (AOP). The allowable direct administrative expense after adjustment is then multiplied by the ratio of Special Education students to Total Students for that ISD.



## **VI. STEP 6 – BUILDING AND FIXTURE DEPRECIATION**

Depreciation on building and fixtures and major movable equipment are allowable expenses per OMB A-87 regulations. All Michigan LEAs and ISDs are GASB-34 compliant and maintain fixed asset data for determining depreciation expenses on an annual basis. LEAs and ISDs can produce depreciation reports for both Building depreciation and Equipment depreciation. The following process outlines the methods by which ISDs will annually calculate depreciation expenses for Medicaid cost reconciliation and settlement purposes.

### ***Step 1: Calculate Total Allowable Building and Fixtures Cost Pool***

ISDs will request from the LEAs all copies of the building and fixture annual depreciation reports that support the amounts reported in the LEA financial statements. The LEA financial statements are audited annually by local CPA firms. The ISD's will aggregate building and fixture depreciation expense on a capital cost worksheet to develop total capital costs.

### ***Step 2: Calculate Allowable Building and Fixtures Expense for Cost Settlement/Reconciliation***

Using the results to Step 1 above, the building and fixture depreciation cost pool will be multiplied by the ratio of Special Education students to Total Students for that ISD.

## **VII. STEP 7 – MAJOR MOVEABLE EQUIPMENT DEPRECIATION**

Depreciation on major movable equipment is an allowable expense per OMB A-87, Attachment B, Section 15 (Depreciation and Use Allowances) and Section 19 (Equipment and Other Capital Expenditures). It is also allowable per the Medicare PRM 15-1, Chapter 1, Section 104.4 (Depreciation – Major Moveable Equipment). All Michigan LEAs and ISDs are GASB-34 compliant and maintain fixed asset data for determining depreciation expenses on an annual basis. LEAs and ISDs can produce depreciation reports for both Building depreciation and Equipment depreciation. The following process outlines the methods by which ISDs will annually calculate depreciation expenses for Medicaid cost reconciliation and settlement purposes.

### ***Step 1: Calculate Total Allowable Equipment Cost Pool***

Depreciable equipment supporting IEP services will be capitalized starting in the year of acquisition. The ISDs will account for capital outlay for equipment purchases that are both >\$5,000 and <\$5,000.

Equipment purchases that are >\$5,000 will be capitalized and only the allowable depreciation amounts will be included. For equipment purchases that are <\$5,000 then these amounts will be treated similar to materials and supplies and will not be depreciated (i.e. will be treated as an expense).

### ***Step 2: Calculate Allowable Equipment Expense for Cost Settlement/Reconciliation***

Using the results to Step 1 above, the major moveable depreciation cost pool will be multiplied by the ratio of Special Education students to Total Students for that ISD.

## **VIII. STEP 8 – INTEREST ON LONG TERM DEBT**

Interest on long term debt is an allowable Medicaid expense per OMB A-87 regulations. The State of Michigan Financial Information Database (FID) for School Districts will serve as the source data for the accumulation of interest on long term debt expense. Individual Local Education Authorities (LEAs) and Intermediate School Districts (ISDs) prepare the FID annually. The FID expenditure data is based on a July to June fiscal year basis and is due by November 15<sup>th</sup> of each year. MDE reviews FID data annually and CEPI releases FID data the following March/April. The FID data becomes available shortly before the SE-4096 data is available. LEAs and ISDs will be accumulating interest on long term debt only and not interest on short term debt. Short term interest is included in Function 259 (which is included in the Indirect Cost Rates).

### **Step 1: Develop Total Interest Expense Cost Pool**

The FID Chart of Accounts includes fund codes, function codes, and object codes for interest expense (Debt Service). These amounts are not included in Michigan's unrestricted indirect cost rate formula.

- The interest expense cost pool will include all fund codes except enterprise and trust funds and will be net of any federal funds. These allowable fund codes are 11 (General Fund), 22 (Special Education Fund), 31 – 39 (Debt Service Funds), and 41 – 49 (Capital Project Funds).
- Function codes 511 (Debt Service – Long Term Only), 512 (Debt Service – Long Term Only), and 513 (Unamortized Gain/Losses on Debt Defeasance) are the group of allowable interest expense codes.
- Specifically 72XX (Interest on Debt) and certain amounts reported in 73XX (Other Financing and Debt Expenditures) will further define the allowable cost pool.

A copy of the supporting FID data will be submitted along with the SE-4096 cost reports as part of the settlement and reconciliation process.

### **Step 2: Calculate Medicaid Allowable Interest Expense for Cost Settlement/Reconciliation**

Once the total interest expense cost pool is developed (Step 1), ISDs will use a worksheet to calculate Medicaid allowable interest expense. The interest expense will be multiplied by a factor of .9 to account for non-allowable Medicaid interest costs (interest on athletic fields, etc.). The allowable interest expense after discount is then multiplied by the ratio of Special Education students to Total Students for that ISD

## **IX. STEP 9 – MEDICAID ELIGIBILITY RATE**

The calculation for the Medicaid (Health-Related IEP) Eligibility Rate (MER) will be as follows: utilizing the December 1 active students file, a query will be run to determine which of the students have a health-related support service code in Field 43 of the December 1 input data. The health-related support service codes would include 290, 310, 320, 360, 370, 400, 450, and 470. MDCH will receive the file of Health-related IEP students and match them against the Medicaid eligibility file for matches. The MER rate will be calculated by dividing the Medicaid eligible students with health-related IEPs by the Total students with health-related IEPs.